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Develop Prompt Corrective Action Framework

Final Report

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This report was prepared by Keith Kilgore and Tim Dill of the Federal Deposit Insurance Corporation (FDIC), in collaboration with Chemonics International Inc., prime contractor to the U.S. Agency for International Development for the AMIR Program in Jordan.

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Money Penalties
Corrective Actions

Abstract

This document details recommendations from Federal Deposit Insurance Corporation (FDIC) executives, Mr. Tim Dill and Mr. Keith Kilgore, regarding the Central Bank of Jordan's Prompt Corrective Action (PCA) Framework. Mr. Dill and Mr. Kilgore highlight the importance of implementing and publicizing Jordan's PCA Framework to help maintain utmost stability in Jordan's banking system and prepare Jordan to be a competitive member of the global banking economy.

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Executive Summary

The Central Bank of Jordan (CBJ) drafted a comprehensive Prompt Corrective Action (PCA) Framework designed to enforce Article 88 of the Banking Law by establishing the standards and criteria under which the CBJ will impose corrective action on banks licensed in Jordan. Executives from the Federal Deposit Insurance Corporation (FDIC), Mr. Tim Dill and Mr. Keith Kilgore, met with the executives from the CBJ, reviewed the draft PCA Framework and provided recommendations based on the experience of the FDIC in banking supervision.

The CBJ PCA Framework is thorough, objective and appropriate for Jordan's banking sector. Establishing standards for corrective action based on capital categories and CAMEL ratings as outlined in the CBJ PCA Framework, demands objectivity and consistency in the application of enforcement actions and penalties and provides an avenue to settle expectations and provide notice to the industry with regard to the consequences of poor administration, improper risk management, and weak corporate governance.

Effective implementation, publicity and enforcement of the PCA Framework will enhance the CBJ's authority as the supervisor of banks and protect the deposit insurance fund and the banking system. Moreover, by instituting the PCA framework, Jordan will further establish itself in the forefront of international bank supervision, thereby enhancing the stability of Jordan's banking system which is fundamental for economic growth.

FDIC
Federal Deposit Insurance Corporation
550 17th St. NW Washington DC, 20429

December 11, 2003

TO: Umayya Toukan
Governor
Central Bank of Jordan

FROM: Tim Dill, Senior Counsel
Keith Kilgore, Case Manager
Federal Deposit Insurance Corporation

SUBJECT: Technical Assistance to the Central Bank of Jordan
Review of the Prompt Corrective Action Framework

During discussions with senior officials of the Banking Supervision Department (BSD) of the Central Bank of Jordan (CBJ), we were requested to review the proposed Prompt Corrective Action (PCA) Framework prepared by Dr. Maher Al-Sheikh Hassan. To this end, we reviewed the Framework and made recommendations based on our combined FDIC experience in bank supervision and imposing corrective or enforcement actions. We believe the BSD's proposed Framework would largely accomplish the goals and objectives noted below.

The purpose of PCA is to implement, in a clear and transparent way, Article 88 of the Banking Law by establishing the standards and criteria under which the CBJ will impose corrective action on banks licensed in the Kingdom of Jordan. Primary objectives of the PCA is to promptly resolve bank problems, resolve them at the least possible long-term cost to the Deposit Insurance Corporation (DIC) fund, and to safeguard the stability and soundness of the Kingdom's banking system.

Given the banking sector's vast importance in Jordan, the CBJ desires to upgrade banking standards, including the standards of care owed to banks by their directors and officers, by publicizing in a legally enforceable way likely enforcement consequences that will result based upon a bank's capital category, CAMEL rating, or when a bank is engaging in unsafe and unsound banking practices. It is believed if specific measures are outlined in the regulations, that objectivity and consistency in the application of enforcement actions imposed on banks will be achieved in a way that enhances the CBJ's independence and reputation. Moreover, by instituting a PCA Framework, Jordan will further establish itself in the forefront of international bank supervision, thereby enhancing the stability of Jordan's banking system which is fundamental for economic growth.

Establishing standards for corrective action will also work toward accomplishing an understanding in the culture, that in limited circumstances, banks that perform poorly or undertake unacceptable risks need to exit the Kingdom's banking system. The FDIC's experience as receiver for failed banks may be helpful on this point. By statute, the FDIC must protect the nation's banking system and the deposit insurance fund by minimizing losses to the fund through effective supervision and enforcement action. Although the FDIC has experience in avoiding bank failures through the use of conservatorships (something akin to Jordan's experience with Administrative Committees) this has not been our preferred course of action. Our experience has shown, generally, that delaying closing a bank or operating a bank under conservatorship while a purchaser is being sought, increases costs to the insurance fund as well as the costs in manpower and other FDIC internal resources.

With this experience in mind, the following points are noted: First, having a regulator manage a bank that is in a perilous financial condition is not appropriate to the regulator's expertise. Regulatory experience is not necessarily the business experience one needs to operate a bank, avoid losses, and return it to a sound financial condition. Attempts by the supervisory authority to accomplish such through temporary administration are very often unsuccessful. Second, once a supervisory authority intervenes extensively in a bank, the bank's assets are heavily discounted in the market. Over time, these assets lose additional value and losses rise as expectations increase that the "government" will absorb any losses. This reduces the supervisory authority's ability to effectively market these assets to the private sector and increases, rather than decreases, losses to the deposit insurance fund. Third, the effect of prolonged regulatory managerial involvement in a bank's operations tends to "reward" unsafe and unsound banking by reducing the exposure of those actually responsible for the bank's losses and can negatively affect the supervisory authority's credibility.

Accordingly, the PCA Framework contemplates that some institutions will have to exit the system by way of liquidation or merger. And the progressively severe corrective action imposed on banks under this Framework, tied as they are to the objective criteria of capital categories and CAMEL ratings, provide an avenue to settle expectations and provide notice to the industry with regard to the consequences of poor administration, improper risk management, and weak corporate governance.

The centerpiece of PCA, however, is the imposition of money penalties (fines) whenever a bank violates the law, any instructions, written directions, agreements, memoranda of understanding, or Orders (e.g. Cease and Desist Orders) issued by the CBJ. Fines are imposed against the bank itself in amounts not to exceed JD 100,000. Fines should be levied not only to punish unacceptable activity, but should be large enough to deter such activity from occurring in the future. The Framework would provide objectivity (through the assessment of agreed upon factors such as whether or not the violation was committed deliberately or with disregard of the law or consequences to the bank) in determining the amount to be levied to enhance fairness and equality throughout the banking system, yet would allow the CBJ sufficient flexibility and discretion to employ fines judiciously. While the banking law does not allow for the assessment of fines against individual directors or officers (as allowed in the United States), judicious use of fines should effectively enhance bank compliance with various actions and regulations issued by the CBJ to correct issues and problems that arise in troubled institutions.

Key concepts that also underlie the PCA Framework are objectivity and consistency. The proposed Framework builds objectivity into the system by outlining actions that may be taken based upon a CAMEL (or ROCA) rating, or if a bank's capital category becomes classified in the undercapitalized to critically undercapitalized categories. These are objective standards that bankers can understand. Publishing these standards, and the likely corrective actions that will be imposed by the CBJ as a result of deterioration in those standards, should enhance the CBJ's authority as the supervisor of banks and protect the deposit insurance fund and the banking system as a whole.

Nonetheless, the Framework is careful to ensure that the CBJ reserves its discretion to take any action as defined in Article 88 as determined appropriate. To that end, the Framework also preserves the CBJ's ability to bring fines and other corrective actions on the basis of less objective criteria such as unsafe and unsound practices. The Framework includes an Appendix that provides examples (with appropriate disclaimers) of unsafe and unsound practices so that the document, when published, will serve as a useful educational tool for the public, and specifically for those within the financial sectors.

Finally, the Framework suggests that the CBJ create a committee (tentatively called the Supervisory Committee). This consultative committee would potentially consist of the Governor, the two Deputy Governors, the Executive Director of BSD, and the Director General of the DIC.

The Committee would serve as an intermediate level of review for all enforcement action recommendations. By serving in this capacity, it will assist the CBJ in achieving consistency in the application of enforcement actions. Such a committee will also afford the opportunity to receive advice from the DIC whose fund will sustain the losses if corrective actions are not promptly employed. Such a perspective on the committee will provide balance and expertise to the corrective action program. To that end, achieving a committee composition with utmost independence will only serve to enhance the effectiveness of the PCA Framework, minimize losses to the insurance fund, and maintain utmost stability in the Kingdom's banking system.

We have enjoyed our stay in Jordan and our work with the senior staff of the CBJ. Please contact us if you have any questions.

Released on
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Prompt Corrective Action Framework

Memo No. 4/2004

Issued by the Central Bank of Jordan

Official Translation

The Arabic Text Prevails

For the purposes of enhancing the safety and soundness of the banking system in Jordan;

In order to ensure that banks comply with legislation aimed at preventing banks from engagement in unsafe or unsound practices;

In continuation of the policy of rectifying banks' weaknesses at an early stage;

To enhance transparency and

Pursuant to the Banking Law No. 28 of the Year 2000 ("Banking Law") and the Central Bank of Jordan Board of Director Resolution No. (1/2004) dated 7/1/2004;

The Central Bank of Jordan (CBJ) resolves, hereby, to implement the Prompt Corrective Action ("PCA") Framework

I. When to apply PCA:

The situations warranting the implementation of PCA are grouped into four main categories:

A- When a bank violates the Banking Law or any of the regulations, instructions or orders issued pursuant thereto.

B- When a bank or any of its subsidiaries engage in unsafe or unsound practices.

C- When the condition of a bank deteriorates according to the applicable CAMEL or ROCA rating system.

D- When the solvency or the capital adequacy of a bank falls below the thresholds determined by CBJ regulations.

a- Violation of the Banking Law or any of the regulations, instructions or orders issued pursuant thereto.

The Banking Law, as well as, the regulations, instructions and orders issued pursuant thereto provide for supervisory controls on banking activities which aim at maintaining the safety and soundness of the banking institutions and the banking system as a whole. Therefore, the CBJ, acting as the banking supervisory authority, shall take needed measures to assure banks' adherence to the Banking Law and the regulations, instructions and orders issued according thereto.

b- When a bank or any of its subsidiaries engage in unsafe or unsound practices.

It is important to explain here that the concept of "unsafe or unsound banking practices" is a broad concept that covers various banking activities. Appendix I contains a list of unsafe and unsound banking practices. This is neither an exhaustive list nor a conclusive one. Therefore, listed examples shall not be absolutely deemed as unsafe or unsound banking practices, but relevant facts will be taken into account. Furthermore, unlisted practices could be considered as unsafe or unsound practices.

An "unsafe or unsound practice" embraces any action, or lack of action, which is contrary to generally accepted standards of prudent operation, the possible consequences of which, if continued, would result in abnormal risk of loss or damage to an institution, its shareholders, or the insurance fund administered by the Deposit Insurance Corporation.

c- The deterioration of the condition of the bank as reflected in its CAMEL or ROCA rating systems.

The CAMEL or ROCA systems represent a comprehensive measurement for the overall condition of a bank. Their deterioration, therefore, is an important indicator that the underlying bank's condition is unsafe or unsound, as well as, an implication of a possible violation of Article 36(b) of the Banking Law. Due to the importance of the CAMEL and ROCA rating systems, they are dealt with independently from above items (a) and (b).

When a bank is rated 3 under CAMEL or ROCA, it means that the bank has weakness points and encountering problems that, unless rectified, could further weaken the bank and exacerbate its problems. Rating 3, therefore, warrants intervention in the bank for the purposes of dealing with its problems and weaknesses.

In cases where a bank is rated 4 or 5 under CAMEL or ROCA, the application of PCA becomes urgently needed.

d- The deterioration in the solvency of a bank below acceptable levels.

The CBJ Regulation No. (16/2003) regarding regulatory capital and the capital adequacy ratio and the CBJ Regulation No. (17/2003) regarding minimum capital requirements for banks operating in Jordan determined the solvency and capital adequacy ratios for licensed banks. Hence, any deterioration in these ratios is a violation of the Banking Law and the instruction issued in pursuant thereto as well as an undertaking of a practice deemed unsafe or unsound. Due to the importance of banks' solvency, it will be dealt with independently from above items (a) and (b).

II. Actions that will be taken in the previous cases

1. Money penalties

a- Money penalties shall be imposed whenever a bank violates the Banking Law or any of the regulations, instructions or orders issued pursuant thereto, including written instructions addressed to banks, Corrective Programs submitted by banks and cease or desist orders issued by the CBJ or when a bank or any of its subsidiaries engage in unsafe or unsound practices.

b- Money penalties shall be imposed by the CBJ either separately or concurrently with other applicable corrective measures.

c- The CBJ shall take the following factors into consideration when determining the amount of the money penalty:

1- Repetition and duration of the violation.

2- Continuation of the violation after issuing a warning to, or imposing a sanction on the violating bank.

3- Cooperation with the CBJ in rectifying the violation.

4- Existence of evidence that the bank has attempted to conceal the violation.

5- The extent of damage or loss sustained by the bank because of the violation.

6- The existence of a corrective program and its effectiveness.

7-

The above factors shall be read conjunctively with any other applicable factors included in the forthcoming CBJ Regulation on Money Penalties

2. Instructing the bank to submit a satisfactory program to eliminate the violation or to rectify the situation.

This measure will be imposed on banks rated (3) under the CAMEL or ROCA ratings. The program shall be formulated according to one of the following forms:

<u>a- Issuance of a board of directors resolution to the executive management of the bank to eliminate the violation or rectify the situation.</u>

It is important that the resolution addresses the causes of the weakness, not only its symptoms. It is also essential that the board of directors monitors the executive management to ensure the implementation of the resolution.

<u>b- Submission of a satisfactory Corrective Program.</u>

It is important the program addresses the causes of the bank’s weaknesses, not only their symptoms, as well as, contain specific procedures and measurable targets. The board of directors shall also monitor the executive management to ensure the implementation of the program.

This Corrective Program shall also be signed by the members of the bank's board of directors, and by the general manager, in case of a Jordanian bank, or by the branch manager in addition to either the General Management or the Regional Management, in case of a branch of a foreign bank located in Jordan.

3. Cease and Desist Orders.

a- The aims of these orders are to stop the violation, or the unsafe or unsound banking practices or conditions and rectify the adverse effects thereof, as well as, prevent further decline in the performance of the bank because of the violation.

b- These orders are imposed on the bank as a separate corporate person as well as on its managers, administrators and staff undertaking managerial responsibilities.

c- In case of non-compliance with above actions, the CBJ may impose stricter actions or impose money penalties on the bank.

d- Determining the activities that may be suspended or restricted, depends primarily on the gravity of the bank's condition. They may include, for example, credit facilities granted to certain entities, growth of credit facilities, acceptance of deposits and restrictions on interest rates. The below section on actions adopted in relation to the decline of solvency provides further examples.

4. **Instructing the bank to temporarily suspend from service any administrator, other than a member of its board of directors, or to dismiss such administrator, depending on the gravity of the violation, or to remove the chairman or any member of the board of directors of the bank.**

Below are the most prominent reasons that deem it appropriate for the CBJ to implement this measures:

a- When the person to be suspended dismissed violates, directly or indirectly, the Banking Laws and/or any regulation or order issued pursuant thereto, including written instructions addressed to the bank, the submitted Corrective Program and cease and desist orders, engages in unsafe or unsound practices or commits actions inconsistent with his duties towards the bank; **and**

a- By reason of the violations and practice provided for in above item (a),

- the bank has sustained or will potentially sustain financial losses; or
- the interests of the bank or its depositors have suffered from significant adverse effects; or

- the violating party has made financial benefits, either directly or indirectly.

The CBJ shall object to the nomination for appointing/reappointing of any person referred to in above item (a) as a member of the board of directors, a general manager, or a top management officer of a bank.

5. Dissolving the board of directors of the bank.

6. Forcing the bank to merge with another bank

7. Revoking the license of the bank.

III. Actions that will be taken in each situation provided for under Section I

1. Corrective actions in the cases of violation of the Banking Law or any of the regulations, instructions or orders issued pursuant thereto.

a- The CBJ main course of action shall be imposing money penalties.

b- The CBJ will take any of the corrective actions provided for under Section II (3-7) concurrently with, or alternatively to, money penalties depending on the following factors:

1- The impact of the violation on the bank's condition.

2- The solvency of the bank and the impact of the money penalty thereon.

3- The CBJ's classification of the violation as an unsafe or unsound banking practice.

4- The CBJ's assessment of the effectiveness of the money penalties in preventing similar violations in the future.

2. **Corrective actions taken when a bank or any of its subsidiaries engage in unsafe or unsound practices.**

Taking into consideration that the concept of "unsafe or unsound banking practices" is a broad concept that covers all banking activities, the CBJ will determine the suitable corrective actions based on its assessment of the nature of these practices, relevant circumstances as well as the impact of such practices on the bank.

3. **The deterioration of the condition of the bank as reflected in its CAMEL or ROCA rating.**

<u>3/a- Banks rated (3) under CAMEL or ROCA</u>

a- Corrective actions to be taken:

   1- The resolutions issued by the bank's board of directors.
   2- Submission of a satisfactory Corrective Program.

b- At minimum, one of the actions mentioned in above item (a) will be taken.

c- In cases the bank or its administrators do not comply with prior actions adopted pursuant to item (a), the CBJ shall apply stricter corrective measure and *vise versa*.

<u>3/b- The PCA that shall be taken in the cases where the bank is rated is (4) or (5) under CAMEL or ROCA, does not comply with a prior Corrective Program or generally fails to adopt corrective actions.</u>

a- Corrective actions that may be taken:

   1- Cease and desist orders.
   2- Instructing the bank to temporarily suspend or dismiss from service any administrator, other than a member of its board of directors, depending on the gravity of the violation, or to remove the chairman or any member of the board of directors of the bank.

3- Dissolving the board of directors.
4- Enforcing the bank to merge with another bank.
5- Revoking the license of the bank.

b- Cease and desist orders shall be the minimum action taken in the situations provided for under latter item (3-b).

4. When the solvency or the capital adequacy of a bank falls below the thresholds determined by CBJ regulations.

The actions provided herein are deemed amongst the most influential actions taken by the CBJ. This is due to the grave consequences of the decline of a bank’s solvency ratio, particularly considering that capital serves as a buffer protecting depositors against potential losses.

Actions adopted within this context are based on two principal elements, first, the classification of banks under five categories according their solvency or capital adequacy and, secondly, the determination of actions that shall be taken accordingly.

<u>4-1 Criteria of the classification of banks according to their solvency or capital adequacy.</u>

a- The CBJ Regulation No. (16/2003) on regulatory capital and the capital adequacy ratio and the CBJ Regulation No. (17/2003) on minimum capital requirements for banks operating in Jordan have both determined the solvency and capital adequacy ratios for licensed banks. The proposed framework specifies more than one criterion for the measurement of a bank's solvency. A composite criteria which includes the total risk-based capital ratio, tier 1 risk-based capital ratio in addition to the ratio of capital to the total assets (Leverage Ratio) is applied herein. Banks shall be consequently classified under five categories as illustrated in Table (1) which, outlines the bases of classification.

Table 1: Classification of Banks into Five Categories According to the Degree of Solvency and Capital Adequacy

Category of Solvency or Capital Adequacy	Total risk-based Capital ratio	Tier 1 risk-based Capital ratio	Leverage ratio
Well Capitalized	14% or more and	8% or more and	7% or more and
Adequately Capitalized	12% or more and	6% or more and	6% or more and
Undercapitalized	Less than 12% or	Less than 6% Or	Less than 6% and
Significantly Undercapitalized	Less than 8% or	Less than 4% Or	Less than 4% and
Critically Undercapitalized	The bank shall be classified within the category of Critically Undercapitalized if the ratio of tangible equity* to total assets is equal to or less than 3%		

* **Tangible equity =** Total equity minus intangible assets such as goodwill

b- Reclassification of the bank to a lower solvency or capital adequacy category:

- The great significance of the level of solvency of the bank dictates that we view not only the present level, but also the future level in the light of the bank's risk profile

- The CBJ may downgrade the classification of a bank in Table (1) in cases where the bank's condition is unsafe or unsound including the situation where there is a significant decline of its assets' quality, as well as, when a bank generally engages in unsafe or unsound banking practices.

- CBJ may, within the above context, reclassify banks rated (4) or (5) under CAMEL or ROCA rating systems from "Well Capitalized" to "Adequately Capitalized or from "Adequately Capitalized" to "Undercapitalized categories.

4-2 Actions that shall be taken according to the level of solvency or capital adequacy.

Categories 1&2 : Well Capitalized and Adequately Capitalized Banks

Banks in category 1 and 2 shall refrain from making distributions from the capital or paying bonuses to any administrative body or to the members of the Board of Directors if such distributions and bonuses result in the re-classification of the bank as "Undercapitalized".

Category 3: Undercapitalized Banks

- A bank classified as Undercapitalized shall be subject to actions imposed on banks classified within categories (1) & (2). This means these banks shall refrain from making distributions from the bank's capital or paying bonuses to any administrative body in the bank or to members of the board of directors as such distributions and payments will lower the solvency of the bank.

- The concerned bank shall provide the CBJ with a *Capital Restoration Plan* within a period not exceeding 45 days. Such plan shall include direct steps to strengthen the solvency of the bank within a time scale and action plan.

- Reclassification of a bank to a higher category in Table (1) depends on the implementation of the Capital Restoration Plan as well as solving the causes of the deterioration in solvency.

- The bank shall not be permitted to distribute any profits to the shareholders.

- The CBJ may impose restrictions on the growth of the bank's assets or some of the components thereof.

- The CBJ may demand that banks obtain its prior approval to acquiring certain assets, providing new banking activities, or any other activity specified by the CBJ.

- The bank may be subject concurrently to any of the additional actions imposed on banks classified within the category of "Significantly Undercapitalized".

- Any other actions deemed necessary by the CBJ to achieve the goals of rectifying the decline in the level of solvency or capital adequacy of the bank.

Category 4: Significantly Undercapitalized Banks

- A bank classified as Significantly Undercapitalized shall be subject to the actions imposed on banks classified as Undercapitalized.

- The bank shall be also subject to at least one of the following additional actions:

  1- Merger with another bank provided that the bank is unable to raise its capital.

  2- Imposing prevailing market interest rates on deposits taken by the bank

  3- Prohibiting the bank from accepting deposits from Correspondent Depository Institutions.

  4- Imposing strict constraints on the growth of the bank's assets or some of its components or demanding a reduction in the size of assets.

  5- Prohibiting or imposing or restrictions on activities which may expose the bank to high risks.

  6- Instructing the bank to temporarily suspend or dismiss from service any administrator, other than a member of its board of directors, or to remove the chairman or any member of the board of directors of the bank according to the provision of Section II(4).

  7- To restrict the bank's activities with any subsidiary or affiliate company susceptible to insolvency, and hence will expose the bank to significant material risks.

- Any other actions deemed necessary by the CBJ to achieve the goals of rectifying the decline in the level of solvency or capital adequacy of the bank.

Category 5: Critically Undercapitalized Banks

1. The CBJ shall issue a decision to merge a critically undercapitalized bank with another bank or revoke its license within a period of no more than (270) days as of the date of classifying the bank into this category.

2. The CBJ may extend the period for an additional (270) days provided that ***all*** of the following condition are met:

   - The bank has a positive net worth;
   - The bank has been significantly compliant with an approved Capital Restoration Plan;
   - The bank is making profits or its earnings are increasing sustainably and not because of exceptional earnings;
   - It is in the CBJ assessment that the bank is not expected to fail and that the extend of the period likely reduce the costs of dealing with such a bank, particularly, the costs borne by the Deposit Insurance Corporation.

3. Action taken during the periods referred to under items (1) and (2) hereunder.

   - The bank shall be subject to the actions imposed on banks classified as Significantly Undercapitalized.
   - The bank's activities shall be restricted to the furthest extent possible.
   - The approval of the CBJ shall be obtained prior to undertaking any of the following:

     ? Carrying out important activities other than the bank's regular activities.

     ? Extending credit to a highly indebted client.

? Introducing any material change to the accounting methods.

? Paying high compensation or bonuses.

? Paying an interest rate on liabilities that makes the weighted average cost of liabilities higher than the average cost prevailing in the market.

- Any other actions deemed necessary by the CBJ to achieve the goal of rectifying the decline in the level of solvency or capital adequacy of the bank.

IV Final Provisions.

- The CBJ will reserve the right to announce any of the previous corrective actions.

- This Regulation will be effective as of the date of issuing thereof.

Appendix I

Examples of Unsafe and Unsound Banking Actions and Practices

A- Lack Of Action Deemed "Unsafe Or Unsound"

1- Non-existence of a sufficient internal control system that would prevent the bank employees from carrying out unsafe or unsound banking practices or violating the regulations, laws and instructions

2- Failure to build adequate provisions for non-performing loans.

3- Failure to follow correct accountancy procedures or lack of documented and accurate data of the accounts, clients, or the collateral for extended facilities.

4- Failure to impose appropriate settlement programs to collect non-performing loans.

B- Actions Deemed "Unsafe Or Unsound":

1- To maintain capital that is less than the acceptable level, while taking into account the bank's types of assets.

2- To carry out unsafe practices related to the granting, follow-up, and collection of facilities including, but not exclusively limited, to the following:

- Extending facilities without suitable guarantees.

- Extending overdraft facilities without sufficient controls.

- Extending facilities on the strength of the balance sheet without sufficient controls.

- Credit Concentration.[1]

3- Undertaking banking activities without sufficient liquidity.

4- Undertaking banking activities without adequate internal controls including, but not exclusively limited to, the following:

- Control and supervision of checks and non-issued CDs.
- Segregation of authorities in the bank.

[1] The term ‘concentration’ covers, amongst others, sectoral and country exposures.

5- Following an investment policy that covers speculation and high-risk practices.

C- Conditions Deemed Unsafe and Unsound Banking Practices:

1- Maintaining a significantly low interest rate margin.

2- High overhead expenses given the volume of the bank's activities.

3- Rise in the rate of the non-performing loans or watch list loans compared with the over-all loans or capital of the bank.

4- Rise in the rate of charge off loans.

5- Rise in the rate of non-performing assets.

6- Concentration in the sources of funds.

D - Violation of the banking law or the instructions and orders issued by the CBJ.